106th Congress, 1st Session: No. 20 July 19, 1999

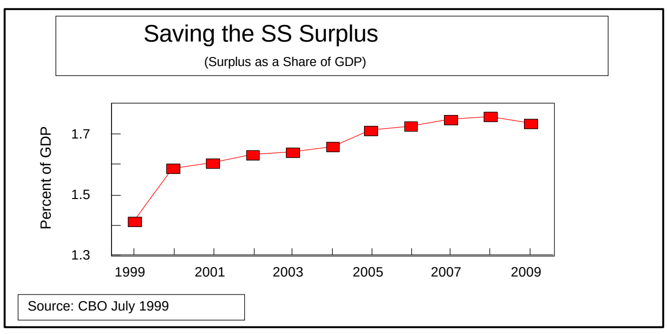
INFORMED BUDGETEER

CONGRESS' FISCALLY PRUDENT BUDGET

- In recent days, there have been a wide range of critiques of the Congressional Budget Resolution (CBR). We thought we'd address (and hopefully dispel) some of them.

Charge: Congress' Tax Cut is irresponsible and will 1) use up all of the on-budget surplus, leaving no funds for other programs and/or 2) it will send us back into unified deficits.

Response: Congress has pledged to save all of the Social Security surplus. This means that at a minimum, the CBR will save 74 percent of all projected surpluses over the next five years and 66 percent over the next ten even with our tax cut. The surplus would rise from 1.4 percent of GDP in 1999 to 1.7 percent in 2009, reducing publicly held debt to only 14 percent of GDP.



- In fact, the CBR will save even more of the surpluses than described above, since the resolution proposes to save a portion of the on-budget surplus as well. Witness the fact that CBO projects a $294 billion on-budget surplus over five years and a $996 billion over ten and the CBO inflates discretionary spending post caps! The CBR calls for tax cuts of $142 billion and $778 billion over these periods. This means that there are plenty of on-budget dollars left to be used for additional debt reduction and/or entitlement reforms.

Charge: OK, so the CBR claims it will save a large portion of the projected surpluses. However, these projected surpluses will never materialize because you assume unreasonably low growth in discretionary spending over the budget window.

Response: Budget projections are not an exact science. It is entirely possible that actual outlays may come in above CBO's projections. However, it is equally possible that revenues may be higher than expected as well. One need only look at recent history to see this latter phenomenon. The following table compares the five year revenue projections made at the start of each five year budget window with what actually materialized. Upside revenue surprises have been substantial.

CBO January 5-yr Projections vs. Actual 5-Year Revenues
(Fiscal years, $ billions)

	Jan. Projection	Actual Revenues	Difference
1995-1999	7412	7926	+514
1994-1998	7035	7364	+329
1993-1997	6419	679	+378

- Further revenue surprises also remain quite probable. Revenue growth has exceeded GDP growth in each of the last six years. Despite this precedent, CBO's baseline assumes that revenue growth will equal GDP growth next year and will fall below economic growth from 2001 to 2004 even without a legislated tax cut. Should this slowdown not materialize, surpluses could again surprise on the upside. Thus, the risks to surplus projections are equally balanced.

Charge: The CBR is exactly the wrong policy mix at present – its tax cuts will stoke consumer demand near-term and lead to more overheating.

Response: The CBR's saves more than 95 percent of the projected surpluses in 2000 and 2001 – just the period where some economists are worried about the economy overheating. It does so because the CBR's tax cuts phase in gradually and are less than 0.2 percent of GDP in both 2000 and 2001.

- However, the best way to determine the thrust of fiscal policy is to look at the trend in the structural, primary surplus. This measure strips out cyclical effects and takes out net interest payments which really don't reflect policy changes in the given year. Based upon CBO's January calculations, the structural primary surplus will rise slightly between 1998 and 2004 even with the CBR's tax cuts – this shows that fiscal policy is not expansionary. Other factors are more than offsetting tax cuts. Thus, the CBR's policies are ideally suited for the current economic environment.

Charge: The President's budget is much more fiscally responsible than the CBR.

Response: Both the CBR and the President's Mid-Session review pledge to save the off-budget surplus over the entire budget window and to save a portion of the on-budget surplus.

- However, both elect to use between $142-$185 billion of the on-budget surplus for their own priorities over the five year budget window. The CBR proposes to cut taxes by $142 billion, while the President proposes to increase spending (and provide limited tax relief) of $185 billion. Thus, the main difference between the two plans is that Congress wants to give one limited portion of the surplus to tax cuts, while the President proposes to spend it. It's a difference of tax cuts versus spending, not tax cuts versus debt reduction.

REVISED 302(b)s OFFER FEW CLUES TO ENACTMENT

- Since the House and Senate Appropriations Committees each made their initial spending allocations to their subcommittees in late May, the Senate has revised its allocations five times, while the House has revised only once. The most recent reallocations both occurred on July 1. However, that coincidence does not suggest a quick convergence on an approach for enacting appropriation bills.

- Consider the comparison of 302(b) allocations below. Of the looming chasms that remain to be bridged, the defense subcommittee is the largest, with the House providing $4 billion in BA and $4.7 billion in outlays **more** than the Senate. Other examples of where the House provides significantly more than the Senate is in VA-HUD by $3.8 billion in BA and $1.4 billion in outlays, and Transportation by $0.4 billion in BA and $0.5 billion in outlays.

- The House also is still sitting on significant unallocated resources in the deficiencies "subcommittee" holding back $0.6 billion in BA and $2.1 billion in outlays.

- The Senate, meanwhile, has given the Commerce, Justice, State subcommittee about a $3 billion advantage over the House. Energy and Water and the Labor-HHS bill also fare much better under the Senate allocation. It also appears that the Senate provides more resources to the Foreign Ops subcommittee, but press accounts in recent days suggest that the House allocation will soon match, or even slightly exceed the Senate allocation. The source of these additional resources to come, however, is not yet known.

- In trying to identify an appropriations enactment strategy by watching the 302(b)s, budgeteers will have to trust there is some truth in the refrain of summer -- "We'll take care of it in conference!"

Comparison of Current 302 (b) Allocations ($ in Billions)						
	Senate:		House		Senate vs. House	
	BA	OT	BA	OT	BA	OT
Agriculture	14.0	14.3	13.9	14.3	0.1	-0.1
Commerce	33.6	33.5	30.5	30.5	3.1	3.0
Defense	263.7	254.4	267.7	259.1	-4.0	-4.7
D.C.	0.4	0.4	0.5	0.4	-0.0	-0.0
Energy	21.3	20.9	19.4	19.2	1.9	1.7
Foreign ops	12.7	13.2	10.4	11.8	2.3	1.3
Interior	13.9	14.3	14.1	14.4	-0.1	-0.1
Labor	80.4	81.1	78.1	78.0	2.3	3.1
Legislative	2.5	2.5	2.4	2.4	0.0	0.0
Mil Con	8.3	8.8	8.5	8.8	-0.2	-0.0
Transp.	12.0	42.9	12.4	43.4	-0.4	-0.5
Treasury	13.4	13.9	13.6	14.0	-0.2	-0.0
VA-HUD	62.4	77.6	66.2	78.9	-3.8	-1.4
Deficiencies	0.0	0.7	0.6	2.8	-0.6	-2.1
Total	538.6	578.4	538.2	578.2	0.5	0.2

SOURCE: SBC Majority Staff.

A FIREWALL WILL NOT HELP THE SPRUCE GOOSE FLY

- This week the *Bulletin* once again discusses the House Aviation Investment and Reform Act for the 21st Century (AIR-21) and addresses the question: Why not create a new firewall around aviation spending?

- AIR-21 takes aviation spending off-budget. However, the press has reported that the real intent of AIR-21 is to start at the extreme and compromise with the Senate by creating new aviation firewalls within discretionary spending. According to the House point of view, who could oppose this simple request? The House logic is addressed in three parts: Spending, Oversight, and Offsets.

- **Spending:** AIR-21 proposes to spend $14.0 billion between 2001-2004 over projected aviation revenues. Why? The House Transportation & Infrastructure (T&I) Committee is demanding that all aviation trust fund revenues be spent (including interest), **plus an additional 25% from the General Fund**, and take this spending off-budget.

- So if a firewall was created, the House would want more than just the revenues coming into the trust fund (like TEA-21 enacted).

- **Oversight:** AIR-21 proposes that the Appropriations Committee would have full oversight of the FAA. According to a June 14 *Dear Colleague* from the House T&I Committee, "AIR-21 preserves the Appropriations Committee's ability to conduct annual oversight over aviation and prevent mismanagement, waste, fraud and abuse."

- Given the constant press stories, DOT Inspector General, and GAO reports on the constant cost overruns of air traffic modernization efforts, the need for strong oversight from both the appropriations and authorization committees is vital.

- However, AIR-21 provides less oversight, for two very important reasons. First, AIR-21 provides that the Appropriations Committee may cut FAA operating expenses, but must move this money to the Airport grant program. Even though the airport grant program is still subject to obligation limitations, it doesn't matter because of the second reason - its all off-budget! How many off-budget programs does the Appropriations Committee have oversight of?

- A firewall would not solve the oversight dilemma either. Look at TEA-21. The Appropriations Committee has no oversight of highways and mass transit spending, other then the ability to earmark specific program funds. The House has a point of order against any appropriations bill that does not spend up to the levels of TEA-21. It was the first point of order in the history of Congress created to prevent a bill **from not spending enough!** The *Bulletin* cannot see this solving the problems at the FAA.

- **Offsets:** The third issue is offsets. TEA-21 was enacted with offsets, primarily the reduction of future veterans smoking benefits, in order to pay for increased spending above the Balanced Budget Agreement.

- Today, there is no easy offset to pay for AIR-21. The House passed its bill saying that the cost of AIR-21 (over $14 billion over 5 years) would be paid for by lowering the proposed tax cut in the Budget Resolution. But as all budgeteers know, you cannot use revenues to pay for increases in spending. You need to reduce spending, as we did in TEA-21.

- The Administration has proposed new aviation user fees of just over $1 billion per year, but this offset falls short of the amount of money needed to offset AIR-21 and it is unlikely that Congress would adopted new user fees or taxes on the aviation community.

- The request for an aviation firewall sounds simple, but is flawed from the start. Whether it is the general fund contribution, oversight, or simply trying to pay for this large increase in aviation spending, a firewall will not work. This House thinks their "Spruce Goose" is ready for takeoff. It is a good thing reality and fiscal discipline will keep it as a museum piece.

CALENDAR

July 20: Senate Budget Committee hearing on the **President's Mid-Session Review and revised budget proposal.** Witness: Jack Lew, Director, Office of Management & Budget. 10:00am; SD 608.

July 21: Senate Budget Committee hearing on the **President's Mid-Session Review and revised budget proposal.** Witnesses: Dr. Dan Crippen, Director, Congressional Budget Office; David Walker, Comptroller general, General Accounting Office. 10:00 am; SD 608.

DEPARTURES & NEW FACES

Up, Up, and Away... After four years as a transportation analyst for Budget Committee, Brian Riley will be taking off for a new job as the Director for the Office of Budget of the Federal Aviation Administration. SBC extends it's very best to Brian and his family.

And Now Arriving... The *Bulletin* would like to announce several new budgeteers joining the Senate Budget Committee.

Daniel Brandt **- -** recent graduate of American University with a concentration in International Business and Economics, will work in the Economics group.

Sandy Davis **- -** has worked on the hill for nearly 20 years at CRS and CBO. As a detailee, he will be responsible for arranging hearings on the Budget Act's 25 years, work with outside scholars to commission major publications on the Act, and assist in process reform legislation.

Andrew Siracuse **- -** worked on the National Commission on Restructuring the IRS and has a recent Master's degree in Economics from John Hopkins. He will focus on Internet tax issues, stat and local budget issues and the general government function.

Margaret Stewart **- -** recent graduate of Duke University with a degree in environmental public policy and will be concentrating on the environment and natural resources function.